



Automotive Market Growth in Russia

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Opportunities for original equipment manufacturers (OEM) and suppliers on the developing markets of the BRIC countries.

Although car sales in Western Europe, the USA and Japan have stagnated or declined, the Association of German Automobile Manufacturers (VDA) expects a growth in the global automotive market of 3% to 57 million passenger cars during 2008. The growth takes place outside the traditional sales markets in the BRIC countries: Brazil, Russia, India and China. The forecast applies not only for this year, but also for the years to come.

This development was also reflected in this year's 8th International Car Symposium organized by the Automotive Research Center at the Gelsenkirchen University of Applied Sciences, which took place under the title "Future Markets and Technologies in the Automobile Industry" in January 2008 in Bochum.

The opening remarks by Siegfried Wolf, CEO of the world's fourth largest automotive supplier MAGNA International Inc., as well as the panel discussion „Growth Market Russia“ focused on the importance of Russia, already today's third largest sales market for passenger cars in Europe – a market which is predominantly served by domestically produced vehicles.

Three-quarters of the vehicles sold in Russia are also produced there. According to experts, this will not change during the next 10 years.

Whereas Russian vehicle manufacturers still dominate the market at present, their share of total sales will decline considerably in favour of Western European, Asian and North American manufacturers, who are in the process of establishing and expanding their manufacturing capacities in Russia on a large scale.

In 2005, the total production capacity in Russia was 1.5 million vehicles, for 2015 a total capacity of 3.5 million vehicles is expected. Today's vehicle concentration in Russia is 177 vehicles per 1.000 inhabitants, and is expected to be 300 vehicles per 1.000 inhabitants in 2015. 4 regions have already evolved as central regions of automotive manufacturing. The Volga region has the greatest manufacturing capacity of 1.3 million vehicles in 2010, followed by the region around Moscow with a capacity of 400.000 vehicles in 2010, St. Petersburg with 300.000 and Nyzhny-Novgorod with 200.000 vehicles in 2010.

The level of vertical integration of Russian automotive manufacturers, which is still very high, provides further potential, especially for automotive suppliers. Whereas the added-value share of suppliers in Western Europe, North America and Japan is around 65 % to 75 % per vehicle, the share of Russian automotive suppliers amounts to only 15 % to 25 %.

In order to compete internationally, Russian OEMs will have to increase the acquisition of components, modules and systems of suppliers at the expense of in-house production. This development provides further growth opportunities for automotive suppliers. Large automotive suppliers have already identified the opportunities of the Russian market. They are already on the spot or are about to enter the market emphatically.

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It has been announced at the 8th International Car Symposium in Bochum that Bosch Automotive e.g. has already achieved annual sales of 600 Million € in Russia. Heinrich Fiedler, Director Finance Russia, Turkey of Johnson Controls, indicated that Russia is, besides China and India, the growth market of the next years for his company. MAGNA International CEO Siegfried Wolf declared Russia's growth to remain ahead of China and India. For this reason the development of the company's presence in Russia is the highest priority for MAGNA worldwide. In order to achieve this goal, the oligarch Oleg Deripaska took a share in MAGNA last year. Cooperating with Russian Machines, a company of the business empire of Oleg Deripaska, better chances to capture the Russian market are expected.

In spite of all growth potential the Russian market is nevertheless a difficult market. Appropriate partners on site are needed to be successful. This also applies to required executives for setting up branches and subsidiary companies in the Russian market. It is not possible to succeed with expatriates alone. Local executives are needed, who are acquainted with the Russian business culture and who possess the required relationship networks.

Cooperation with international network of executive search professionals, therefore, provides valuable access to local executives necessary for establishment of activities on local emerging markets.

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